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FEATURED Q&A

What is the Outlook for Latin America's Real Estate Market?

Q Latin America's real estate market has shown rapid growth, particularly in countries like Brazil, Mexico, and Panama, amid an economic expansion in the region and greater access to credit. What is the outlook for Latin America's real estate market this year? How will it be affected by the economic downturn and subprime mortgage crisis in the United States?

A **Guest Comment: Raúl Herrera:** "The rapid growth of Latin America's real estate market, particularly in countries like Brazil, Mexico, and Panama, will continue for the next 8-12 months. The outlook for this market in 2008 is promising and will continue to provide interesting opportunities for above-market returns for discerning investors. By its very nature, real estate investing is a medium- to long-term proposition. With continued economic and political stability and sound macro-economic policies in most countries of the region, the real estate market outlook over the medium term is positive. Although there has been a limited pullback in the commercial bank market to finance certain real estate companies or projects, the general thrust continues to be on an upswing. The amount of private equity capital raised for the region has increased significantly, from a record low of \$800 million in 2004 to \$2.8 billion in 2006, and 2007 closed at \$4.4 billion, with deals worth \$7.4 billion and exits of \$5.4 billion. This is impressive

by anyone's standards. Almost on a weekly basis a new (or follow-on) private equity fund is launched targeting Latin America, and a portion of those funds will be invested in the real estate market. For this market segment of the region, we will continue to count on favorable demographics and the steep housing deficit that remains in many countries, coupled with a nascent but growing middle class. Moreover, the recent CAFTA-DR trade agreement and prospects for others (Colombia and Panama) provide investors with the comfort of continued political stability in these countries, which fortunately had limited exposure to subprime lending. For these reasons, the eco-

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Chavez: US Can "Shove it"

Venezuelan President Hugo Chavez on Friday dared the US to add his country to its list of state sponsors of terror, saying the US could take the list and "shove it." See story on page 2.

Photo: ABN.

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NEWS BRIEFS

Mexico's PRD Elects AMLO Ally Encinas as Party Leader

Mexico's leftist opposition PRD party on Sunday elected Alejandro Encinas, an ally of former PRD presidential candidate Andres Manuel Lopez Obrador (AMLO), to lead the party, Bloomberg News reported. Encinas, a former mayor of Mexico City, won 49.4 percent of the vote, versus 44.6 percent for his opponent Jesus Ortega Martinez. Encinas' victory is expected to lead the PRD to harden its opposition to legislation proposed by the conservative government of President Felipe Calderon.

Peruvian Economy Grew 10.1 Percent in January

Peru's booming economy grew 10.1 percent in January compared to the same month a year earlier on strong growth in construction, retail sales, and manufacturing, Bloomberg News reported on Saturday, citing the government's National Statistics Institute. Construction rose 21 percent, while retail sales grew 13 percent, and manufacturing increased 10 percent. Analysts polled by the *Advisor* late last year expected Peru's economy to grow 6.5 percent this year after a 9 percent expansion in 2007.

Brazilian Retail Sales Rose 1.8 Percent in January

Retail sales volumes in Brazil rose a higher-than-expected 1.8 percent in January from the previous month, the government said Friday, according to Reuters. Growth was led by a surge in sales of furniture, appliances, and personal items spurred by higher wages. Retail sales jumped 11.8 percent in January when compared to the same month a year earlier, also higher than expected.

Political News

Chavez Dares US to Add Venezuela to State Sponsors of Terrorism List

Venezuelan President Hugo Chavez on Friday dared the United States to add his country to a list of nations identified as state sponsors of terror. "Let them make that list and shove it in their pocket," Chavez was quoted as saying by the Associated Press in a televised speech. "We shouldn't forget for an instant that we're in a battle against North American imperialism ... On this continent, they have us as enemy number one." Some US lawmakers have called on President George W. Bush to label Venezuela a state sponsor of terror amid accusations the Chavez government is supporting Colombia's FARC rebel group, which is identified as a foreign terrorist organization by the US. That would put Venezuela on the same list as Cuba, Iran, North Korea, Sudan, and Syria and subject it to certain sanctions, including bans on certain economic aid and financial sanctions. US Assistant Secretary of State Thomas Shannon said Wednesday the US is carefully studying the evidence, based on files found on a laptop belonging to the FARC's number-two leader, who was killed in a March 1 raid during a Colombian attack on a FARC camp in neighboring Ecuador. However, Shannon cautioned that the US is still in the early stages of deciding whether or not to call Venezuela a state sponsor of terror.

Mexico Opens Probe of Ties with Colombia's FARC Rebels

Mexico's foreign ministry said Friday it opened an investigation into whether the country harbors any sympathizers of Colombia's FARC rebel group after four Mexicans were found among the dead in a March 1 Colombian attack on a FARC camp, Reuters reported.

The ministry said Friday that Colombia asked it to probe ties between Mexican citizens and the FARC following the deaths of the Mexicans in the attack on the camp in Ecuador that killed a total of some two dozen people including the FARC's number two commander, Raul Reyes.

A Mexican survivor of the attack, university student Lucia Morett, said she was with several other Mexicans for an academic study and is not a member of the FARC.

Mexican authorities closed a FARC office at a local university six years ago.

Company News

Petrotrin Posts Drop in Profit Despite Record Revenues

Petrotrin, Trinidad and Tobago's state-owned oil and gas company, on Friday reported a \$205 million profit for the previous fiscal year 2007, down 1.7 percent from a year earlier despite record revenues, as the company faced higher costs, Reuters reported. Petrotrin said revenues for the fiscal year ending September 2007 rose 2.5 percent to an "all-time high" of \$4.2 billion, boosted by high oil and gas prices, and high refinery margins. At the same time, however, expenses rose, due mainly to higher refinery and employee benefit costs. Petrotrin also increased capital expenditures, partly to fund a program aimed at providing cleaner and more efficient fuels, and invested more money in Petrotrin's upstream joint venture operations with several partners to increase crude oil and natural gas production. Petrotrin has also suffered a loss of 8,000 barrels per day of oil production when it decided in May to shut down eight platforms for "structural integrity concerns" following the death of a contract worker killed when a gas pipeline ruptured during maintenance operations. A Petrotrin spokesman said repairs were almost complete on the platforms and that the company plans to bring them back into operation on a staggered basis by the end of next month, according to Reuters.

Featured Q&A*Continued from page 1*

conomic downturn and subprime mortgage crisis in the US should not significantly affect the real estate market in the region."

A Guest Comment: Claudio Loser: "Real estate cycles have tended to be a local phenomenon in Latin America, with different characteristics from those we see in the 'advanced' economies. Construction tended to expand rapidly at times of economic booms and went flat during the frequent busts, be it in Argentina, Chile, Brazil, or Mexico. At present, the good times prevailing in the region have favored real estate. A main difference with the US and Europe is that credit, although growing, is very limited and of a very short-term nature, with the possible exception of Chile, and now Mexico and Panama. Thus, real estate is almost a cash business, and less sensitive to swings in credit. Accordingly it has not suffered so much from the 'subprime crunch,' even though the international risk premium has increased by an average of about one percentage point in the last year. It is likely that construction activity will slow down, but mainly because economic growth will be declining and not due to problems with credit. Of course, certain specific markets, like those oriented to US retirees/expatriates in Costa Rica, Panama, and Mexico are suffering because they have tended to over-expand with the US economic cycle, and will decline as the US economy shrinks. But for most markets, the slowdown should be much less, even though real estate prices may stabilize or decline."

A Guest Comment: Eduardo Marques Roche: "Among countries with notable [real estate] growth, we can spotlight Mexico as a pioneer. Mexico began an interest rate reduction process two decades ago and this gave incentives to the sector. Mechanisms like [state lender] Infonavit, which is similar to Brazil's FGTS, was one measure to finance the sector. The funding participation of the government and primarily

private banks was fundamental to the sector's growth ... In Brazil, 2005 was fundamental for real estate sector growth because in that year the process of consistently lowering interest rates began and the macroeconomic environment started to become clearer ... We believe the sector's growth will continue to curve upward in Brazil, given more favorable macroeconomic conditions and changes to usage rules at FGTS to stimulate demand and financing. I believe the subprime crisis will not directly reach the sector in Latin America. Indirect effects could be felt, given that the crisis could affect markets—which has already been occurring—and economies in some ways. Looking at Brazil's case, the biggest risk is a reversal of the sector's great achievements in the last two years, which resulted from the economy's strengthening and mainly the evolution of credit conditions, as much due to interest rate reductions as to longer financing terms. Delinquency also represents a potential risk for the sector. However, even in a possible environment of key interest rate increases in coming months, I don't see great risks to the sector. In the end, credit in Brazil has interesting particularities, with support for public organizations that guarantee the population's real estate credit needs this year, especially in the low-income sector, where the country has the biggest housing deficit. Put another way, despite the importance of the US real estate crisis and its effects on the rest of the world, the situation in Brazil remains positive and has a chance to consolidate still further, even with some short-term mishaps."

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